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**U.S. Representative**

***John Spratt***

South Carolina # 5th District

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**News Release**

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**Spratt Initiates Investigation of Natural Gas Prices**

**WASHINGTON – U.S. Rep. John Spratt (D-SC) announced today that the General Accounting Office (GAO) has agreed to his request for a full investigation into the price of natural gas, which spiked to record levels over the past year.**

“Natural gas users in South Carolina and other states were hard hit during this heating season,” said Spratt, “and there are indications that gas prices may stay high and rise again. We’ve got to find a solution.”

Spratt requested that the GAO, the investigative arm of Congress, conduct an investigation after receiving hundreds of letters and phone calls from constituents urging action by Congress. Many of the letters contained messages from local gas authorities urging that they write their representatives. Before asking for an investigation, Spratt contacted the American Public Gas Association to see what remedies they were seeking. The group had no proposals for legislative action but strongly supported a government investigation.

Spratt said he hopes that the GAO study can explain what drove the dramatic rise in natural gas prices so that Congress can correct whatever deficiencies may exist in the market. “Congress needs to know what problems exist in the natural gas market that are causing these price spikes. If we can correct them, we should. We also need to know whether there is collusion or price-fixing. If there is, the Justice Department should stop it,” he said.

In a March 30 letter to GAO Comptroller General David Walker, Spratt and five other members of Congress noted that natural gas prices have soared and become a huge burden to customers. “We are alarmed at this spike in the cost of natural gas and the impact on our constituents,” the letter stated. “The cost has been staggering, especially for customers on fixed incomes.” The letter also noted, however, that the cost of producing natural gas has not increased, at least not substantially; and there has been no widespread curtailment among firm gas customers. “This raises the question: Why have natural gas prices risen so far, so fast?,” the lawmakers asked.

Spratt’s letter was cosigned by Reps. Jan Schakowsky (D-IL), Bud Cramer (D-AL), Bob Etheridge (D-NC), Ed Markey (D-MA), and Mike Thompson (D-CA).

Recent prices for natural gas have been some of the highest ever. Prices have escalated from \$2.35 per million BTU in January 2000, which was slightly above the average for prices during the 1990s, to almost \$10.00 per million BTU in January 2001 – an increase of more than 400 percent since last January. The market price for February 2001 of about \$6.25 per million BTU was the second highest monthly price of all time. The December 2000 price was the third highest. The average price for the past 12 months of about \$4.80 per million BTU was higher than any monthly price in the market prior to October 2000. Current prices continue to hover in the \$4-5 per million BTU range.

Spratt and his colleagues asked GAO to investigate the following:

- Natural gas supply availability from domestic and imported (Canadian and Mexican) production during the recent period of extremely high gas prices.
- Changes in demand by class of gas consumers – residential, small commercial, industrial, and electric generation (both utility and non-regulated merchant generators), and the impact of these demand increases on overall prices.
- The impact on prices from natural gas-fired electric generation coming on line in recent years, particularly during the summer of 2000.
- The role of the trading of futures contracts on the New York Mercantile Exchange (NYMEX), natural gas forward contracts, and any over-the-counter derivatives contracts involving natural gas in the escalation of the market price for natural gas over the past two years.
- The methods used to establish published spot market index prices for natural gas.
- The role of pipeline capacity constraints in causing a shortage of supply and price increases of natural gas in each region of the country.
- Whether manipulation of prices appears to have occurred during the recent price spike, and if such manipulation occurred, what legislation might prevent it from recurring in the future.

The GAO is assembling a team to conduct the investigation and it will begin work soon. The investigation should be completed within the next six to eight months, and Spratt said he will be in touch with the GAO during the course of the study.

Natural gas prices are no longer regulated by the federal government. Although the price of gas was regulated in the 1970s, complicated price caps were lifted during the Reagan administration and the natural gas industry was deregulated. There has been no regulation of natural gas prices at the well-head since then. The only federal regulation for natural gas that remains in place is the price that interstate pipelines charge to transport gas. There is also state regulation of the prices intra-state pipelines charge to deliver and distribute gas. Pipeline transportation makes up less than a quarter of the retail cost of gas, and rates for transportation have remained stable.

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In addition to initiating the GAO investigation, Spratt has cosponsored legislation that calls for a

National Academy of Sciences (NAS) study of this past winter's high natural gas prices. The NAS would assemble the nation's foremost experts on energy and natural gas to review the price spike and make recommendations to Congress.

Spratt said he hopes the studies will provide options to Congress that might prevent future price spikes.

“Natural gas customers and the nation's economy cannot afford to continue paying natural gas prices at their current levels,” said Spratt, “nor can we afford to see a recurrence next winter of the price rises that occurred this winter.”

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